

Scotiabank Brasil S.A. Banco Múltiplo

Financial statements of June 30, 2017 and 2016

(A free translation of the original report in Portuguese as published in Brazil containing financial statements prepared in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil)

Contents

| | |
|---|-----------|
| Management's report | 3 |
| Independent auditors' report on the financial statements | 4 |
| Balance sheets | 7 |
| Statements of income | 9 |
| Statements of changes in shareholders' equity | 10 |
| Statements of cash flows (indirect method) | 11 |
| Notes to the financial statements | 12 |

Management's report

In compliance with legal and statutory provisions, the Scotiabank Brasil's Board of Directors submits to your appreciation the financial statements for the six-month periods ended June 30, 2017 and 2016, accompanied by the notes and the independent auditors' report prepared in accordance with accounting practices adopted in Brazil, as set forth by the Brazilian Corporation Law, National Monetary System, the Central Bank of Brazil and the Securities and Exchange Commission. Management ensures the Bank's financial capacity and the intention to hold to maturity the securities classified in this category, in accordance with the provisions of BACEN Circular No. 3,068 / 01.

Acknowledgements

Scotiabank Brasil thanks all its customers for their trust and support, and for their employees and employees, for dedication, ethics, professionalism and commitment.

Executive Board



KPMG Auditores Independentes
Rua Arquiteto Olavo Redig de Campos, 105, 6º andar - Torre A
04711-904 - São Paulo/SP - Brasil
Caixa Postal 79518 - CEP 04707-970 - São Paulo/SP - Brasil
Telefone +55 (11) 3940-1500, Fax +55 (11) 3940-1501
www.kpmg.com.br

Independent auditors' report on the financial statements

To
The Management and Shareholders of
Scotiabank Brasil S.A. Banco Múltiplo
São Paulo - SP

Opinion

We have audited the financial statements of Scotiabank Brasil S.A. Banco Múltiplo (*the "Bank"*), which comprise the balance sheet as of June 30, 2017, and the statements of profit or loss, changes in equity and cash flows for the six-month period then ended, and notes to the financial statements, including significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Scotiabank Brasil S.A. Banco Múltiplo as of June 30, 2017, and of its financial performance and its cash flows for the six-month period then ended in accordance with accounting policies adopted in Brazil applicable to the entities authorized to operate by the Central Bank of Brazil - Bacen.

Basis for opinion

We conducted our audit in accordance with International and Brazilian Standards on Auditing. Our responsibilities, in accordance with the aforementioned standards, are described in the following section entitled "Auditors' responsibilities for the audit of the financial statements". We are independent of the Bank, in accordance with relevant ethical principles established in the Accountant's Professional Code of Ethics and professional standards issued by the Federal Accounting Council (CFC), and we comply with other ethical responsibilities in accordance with the aforementioned standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other information that accompanies the financial statements, and the independent auditors' report

The Bank's Management is responsible for that other information comprising the Management Report.

Our opinion on the financial statements does not cover the Management Report and we do not express any form of audit conclusion thereon.



Our responsibility in connection with the audit of the financial statements is to read the Management Report and, in doing so, verify whether the aforementioned report is materially inconsistent with the financial statements and our knowledge gained in the course of our examination, or, otherwise, seems materially misstated. If, based on the work performed, we conclude that there is material misstatement in the Management Report, we are required to report on such fact. We have nothing to report on this respect.

The management and corporate governance responsibilities for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting policies adopted in Brazil, applicable to institutions authorized to operate by the Central Bank of Brazil (BACEN), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

The auditors' responsibilities for the financial statements

Our objectives are to obtain reasonable assurance that the overall financial statements are free from material misstatement, whether due to error or fraud, and issue an independent auditors' report including our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that the examination performed in accordance with Brazilian and international standards on auditing will always detect possible existing material misstatements. Misstatements may derive from error or fraud and are considered material when they may individually or jointly influence, within a reasonable perspective, the economic decisions users take based on the aforementioned financial statements.

As part of the examination performed in accordance with Brazilian and international standards on auditing, we exercised professional judgment and maintained professional skepticism throughout the audit. Additionally:

- We identify and assess the material misstatement risks in the financial statements, whether caused by error or fraud. We plan and execute audit procedures in response to such risks, and obtain appropriate and sufficient audit evidence to substantiate our opinion. The risk of not detecting material misstatement resulting from fraud is greater than the one deriving from error, as fraud may involve the act of circumventing internal control, collusion, forgery, omission or deliberate false representations.
- We gain an understanding of the relevant internal control for the audit in order to plan audit procedures appropriate for the circumstances, but not with the objective of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- We conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. Should we reach the conclusion that there is material uncertainty, we should draw attention in our audit report to the corresponding disclosures in the financial statements, or include any change in our opinion if the disclosures are inappropriate. Our conclusions are substantiated by the audit evidence obtained up to the date of our report. However, future events or conditions may lead to the Bank losing its ability to continue as a going concern.
- We assess the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the corresponding transactions and events in a compatible manner with the objective of a true and fair presentation.

We communicate with those responsible for corporate governance with respect to, among other aspects, the scope planned, the audit timing and the significant audit findings, including possible significant weaknesses in internal control that we identified during the course of our work.

São Paulo, August 18, 2017.

KPMG Auditores Independentes
CRC 2SP014428/O-6
Original report in Portuguese signed by
Giuseppe Masi
Accountant CRC 1SP176273/O-7

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
BALANCE SHEETS AS OF JUNE 30, 2017 AND 2016

(In thousands of reais)

| | <u>2017</u> | <u>2016</u> |
|---|------------------|------------------|
| Assets | | |
| Current assets | 2,717,156 | 2,408,877 |
| Cash and cash equivalents | 14,669 | 10,710 |
| Interbank investments | 670,614 | 460,160 |
| Money market investments | 560,056 | 323,782 |
| Interbank deposits | 110,558 | 136,378 |
| Securities and derivative financial instruments | 1,443,243 | 1,125,304 |
| Own portfolio | 535,351 | 158,754 |
| Subject to repurchase agreement | - | 100,657 |
| Derivative financial instruments | 241,954 | 161,330 |
| Subject to guarantees | 665,938 | 704,563 |
| Interbank accounts | 13 | 1,327 |
| Restricted deposits: | | |
| Deposits with Central Bank of Brazil | 13 | 4 |
| Correspondents Banks | - | 1,323 |
| Loans | 212,511 | 135,524 |
| Loans | | |
| Private sector | 214,821 | 136,278 |
| Allowance for doubtful accounts | (2,310) | (754) |
| Other receivables | 375,282 | 675,155 |
| Foreign exchange portfolio | 298,739 | 614,117 |
| Income receivable | 6 | - |
| Trading and intermediation of securities | 1,196 | 6,146 |
| Others | 176,882 | 60,735 |
| Allowance for doubtful accounts | (101,541) | (5,843) |
| Other assets | 824 | 697 |
| Prepaid expenses | 824 | 697 |
| Long-term assets | 744,494 | 818,383 |
| Securities and derivative financial instruments | 97,816 | 556,776 |
| Own portfolio | 17,406 | 159,376 |
| Derivative financial instruments | 80,410 | 397,400 |
| Loans | 593,699 | 202,781 |
| Loans | | |
| Private sector | 594,199 | 203,499 |
| Allowance for doubtful accounts | (500) | (718) |
| Other receivables | 52,936 | 58,701 |
| Others | 52,936 | 58,701 |
| Other assets | 43 | 125 |
| Prepaid expenses | 43 | 125 |
| Permanent assets | 3,691 | 3,825 |
| Investments | 6 | 6 |
| Other investments | 6 | 6 |
| Fixed assets | 3,260 | 3,182 |
| Other fixed assets | 12,881 | 13,002 |
| Accumulated depreciation | (9,621) | (9,820) |
| Intangible assets | 425 | 637 |
| Intangible assets | 1,121 | 2,232 |
| Accumulated amortization | (696) | (1,595) |
| Total assets | 3,465,341 | 3,231,085 |

The notes are an integral part of these financial statements.

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
BALANCE SHEETS AS OF JUNE 30, 2017 AND 2016

(In thousands of reais)

| | <u>2017</u> | <u>2016</u> |
|--|------------------|------------------|
| Liabilities | | |
| Current liabilities | 1,153,640 | 2,250,127 |
| Deposits | 560,217 | 572,607 |
| Demand deposits | 206 | 5,788 |
| Interbank investments | 70,089 | 86,428 |
| Time deposits | 489,922 | 480,391 |
| Money market funding | - | 100,500 |
| Own portfolio | - | 100,500 |
| Funds from acceptance and issuance of securities | 20,935 | 58,297 |
| Funds from real estate, mortgage, credit and similar notes | 20,935 | 58,297 |
| Interbranch accounts | 1,004 | 64,212 |
| Third-party funds in transit | 1,004 | 64,212 |
| Borrowings | 466,433 | 1,259,304 |
| Foreign borrowings | 466,433 | 1,259,304 |
| Derivative financial instruments | 36,684 | 143,260 |
| Derivative financial instruments | 36,684 | 143,260 |
| Other liabilities | 68,367 | 51,947 |
| Foreign exchange portfolio | 9,679 | 7,923 |
| Tax and social security | 44,454 | 1,546 |
| Trading and intermediation of securities | 1,049 | 29,891 |
| Other | 13,185 | 12,587 |
| Long-term liabilities | 1,810,533 | 465,786 |
| Deposits | 1,174,997 | 181,075 |
| Time deposits | 1,174,997 | 181,075 |
| Funds from acceptance and issuance of securities | 738 | 18,814 |
| Funds from real estate, mortgage, credit and similar notes | 738 | 18,814 |
| Borrowings | 569,750 | 134,372 |
| Foreign borrowings | 569,750 | 134,372 |
| Derivative financial instruments | 14,291 | 58,780 |
| Derivative financial instruments | 14,291 | 58,780 |
| Other liabilities | 50,757 | 72,745 |
| Tax and social security | 22,045 | 45,346 |
| Other | 28,712 | 27,399 |
| Income for future years | - | 1 |
| Income for future years | - | 1 |
| Shareholders' equity | 501,168 | 515,171 |
| Capital: | | |
| Domiciled abroad | 321,122 | 321,122 |
| Profit reserves | 200,697 | 175,557 |
| Equity valuation adjustments | 128 | (113) |
| Retained earnings (accumulated losses) | (20,779) | 18,605 |
| Total liabilities | 3,465,341 | 3,231,085 |

The notes are an integral part of these financial statements.

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
STATEMENTS OF INCOME
SEMESTERS ENDED JUNE 30, 2017 AND 2016

(In thousands of Reais, except net income (loss) per thousand shares - R\$)

| | 2017 | 2016 |
|--|------------------|-----------------|
| Financial operations income | 150,856 | (29,239) |
| Loans | 51,418 | 23,785 |
| Securities | 98,972 | 119,498 |
| Derivative financial instruments | (4,810) | (172,522) |
| Foreign exchange operations | 5,276 | - |
| Financial operations expenses | (182,946) | 97,038 |
| Funding operations | (85,854) | (38,242) |
| Borrowings | (19,225) | 250,023 |
| Foreign exchange operations | - | (111,495) |
| Allowance for doubtful accounts | (77,867) | (3,248) |
| Gross income on financial operations | (32,090) | 67,799 |
| Other operating income (expenses) | (7,176) | (31,927) |
| Rendering of services | 20,838 | 5,338 |
| Personnel expenses | (20,580) | (23,215) |
| Other administrative expenses | (9,557) | (11,040) |
| Tax expenses | (2,198) | (3,686) |
| Other operating income | 6,097 | 1,894 |
| Other operating expenses | (1,776) | (1,218) |
| Operating income (expenses) | (39,266) | 35,872 |
| Non-operating loss | (60) | (1) |
| (Loss) income before taxes and profit sharing | (39,326) | 35,871 |
| Income and social contribution taxes | 18,547 | (16,287) |
| Provision for income tax | (10,410) | (12,549) |
| Provision for social contribution | (8,310) | (9,774) |
| Deferred tax assets | 37,267 | 6,036 |
| Net income (loss) for the semester | (20,779) | 19,584 |
| Net income (loss) per lot of a thousand shares - in R\$ | (9.35) | 8.82 |

The notes are an integral part of these financial statements

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
STATEMENTS OF CHANGES IN EQUITY
SEMESTERS ENDED JUNE 30, 2017 AND 2016

(In thousands of reais)

| | Capital stock | Profit reserves | | Equity valuation adjustments | Retained earnings / accumulated losses | Total |
|------------------------------------|------------------|-----------------|----------------|---------------------------------|---|----------------|
| | | Legal | Statutory | | | |
| Balances at January 1, 2016 | 321,122 | 17,642 | 156,936 | - | - | 495,700 |
| Equity valuation adjustments | - | - | - | (113) | - | (113) |
| Net income for the semester | - | - | - | - | 19,584 | 19,584 |
| Allocation: | | | | | | |
| Legal reserve | - | 979 | - | - | (979) | - |
| Balances at June 30, 2016 | 321,122 | 18,621 | 156,936 | (113) | 18,605 | 515,171 |
| Balances at January 1, 2017 | 321,122 | 18,948 | 181,749 | 111 | - | 521,930 |
| Equity valuation adjustments | - | - | - | 17 | - | 17 |
| Net loss for the semester | - | - | - | - | (20,779) | (20,779) |
| Balances at June 30, 2017 | 321,122 | 18,948 | 181,749 | 128 | (20,779) | 501,168 |

The notes are an integral part of these financial statements

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
STATEMENTS OF CASH FLOWS (INDIRECT METHOD)
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of reais)

| | 2017 | 2016 |
|---|------------------|------------------|
| Operating activities | | |
| Adjusted net income | 58,337 | 24,668 |
| Net incom (loss) for the semester | (20,779) | 19,584 |
| Adjustments to net incom (loss) | 79,116 | 5,084 |
| Recording (reversal) of allowance for doubtful credit operations | 1,634 | (81) |
| Recording of allowance for other doubtful operations | 76,233 | 3,329 |
| Depreciation and amortization | 546 | 625 |
| Recording of provision for contingent liabilities and legal obligations | 686 | 1,324 |
| Adjustment to market value of available-for-sale financial assets | 17 | (113) |
| Variation in assets and liabilities | (217,435) | (243,099) |
| (Increase) in interbank investments | - | (9,483) |
| Decrease (increase) in securities and derivative financial instruments | 191,237 | (784,651) |
| Decrease in mandatory deposits at the Central Bank of Brazil | - | 2 |
| Decrease (increase) in interbank accounts | 2,279 | (1,323) |
| Increase in interbranch accounts | 567 | 64,212 |
| (Increase) in loans | (482,057) | (15,180) |
| Decrease in other credits | 495,542 | 131,916 |
| Decrease (increase) in other assets | (256) | 157 |
| Increase in deposits | 326,324 | 290,107 |
| Increase in money market funding | - | 99,500 |
| Increase (decrease) in acceptances and endorsements | (60,628) | 5,391 |
| (Decrease) in borrowings | (277,899) | (17,934) |
| (Decrease) in other liabilities | (412,353) | (5,805) |
| (Decrease) in deferred income | (191) | (8) |
| Net cash (used in) operating activities | (159,098) | (218,431) |
| Investing activities | | |
| Acquisition of fixed asset | (722) | (31) |
| Net cash (used in) investing activities | (722) | (31) |
| Net (decrease) in cash and cash equivalents | (159,820) | (218,462) |
| Cash and cash equivalents at beginning of semester | 845,103 | 552,954 |
| Cash and cash equivalents at end of semester | 685,283 | 334,492 |
| Net (decrease) in cash and cash equivalents | (159,820) | (218,462) |

The notes are an integral part of these financial statements

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of Reais)

1. Operations

Scotiabank Brasil S.A. Banco Múltiplo (“Bank”) is organized and authorized to operate as a multiple bank by means of its investment and commercial portfolios, including foreign exchange.

The Bank's shareholders are The Bank of Nova Scotia (“BNS”) and BNS Investments Inc. (BNS' whole investee), both with head offices in Canada.

2. Preparation and presentation of the financial statements

The financial statements have been prepared in accordance with accounting policies set forth by corporate legislation, the standards and instructions set forth by the National Monetary Council (CMN) and by the Central Bank of Brazil (BACEN), in accordance with the Standard Chart of Accounts for Financial Institutions (COSIF), and by the Committee for Accounting Pronouncements (CPC), when applicable.

The issuance of these financial statements was authorized by the Executive Board on August 10, 2017.

The financial statements include estimates and assumptions, such as measurement of allowance for loan losses, estimates of the fair value of certain financial instruments, provisions for contingencies, other provisions and the determination of the useful life of certain assets. Actual results may differ from those estimates and assumptions.

Amounts realizable and payable in up to one year and after one year are segregated, respectively, into current and long-term, according to the applicable regulation.

The statements of cash flows were prepared based on the indirect method and the cash and cash equivalent amounts correspond to the balances of cash and due from banks and interbank investments with original maturity equal to or shorter than ninety days.

3. Description of significant accounting policies

a) Statement of income

Income and expenses are recognized on the accrual basis.

For better presentation purposes, the Bank reclassifies exchange losses from “Other operating income / expenses” account directly to the corresponding accounts “financial operations income / expenses” in the statement of profit or loss.

b) Current and long-term assets

These are stated at realization value, less, when applicable, the corresponding unearned income, including the yields and monetary and foreign exchange variations earned and adjusted by provisions, when applicable, up to the reporting date.

c) Securities

The Bank classifies its securities as trading, available-for-sale and held-to-maturity, which are valued as established in the BACEN Circular n° 3.068/01, in accordance with the following guidelines:

- **Trading securities** - They include securities acquired to be actively and frequently traded. These securities are recorded at market value, with any valuation or devaluation being posted against the appropriate income or expense account in the statement of profit or loss for the period. Regardless of the maturity date, trading securities are classified as current assets.

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of Reais)

- **Available-for-sale securities** - Securities that do not fall within the trading or held-to-maturity categories. They are recorded at cost of acquisition plus income earned against income earned for the period, and adjusted at market value against equity, less tax effects, which will only be recognized in profit or loss upon the effective realization.
- **Held-to-maturity securities** - Securities for which there is the intention and financial capacity to hold them in the portfolio up to their maturity. They are recorded at acquisition cost plus yields earned in contra-entry to profit or loss for the period.

d) Derivative financial instruments

In accordance with the BACEN Circular n° 3.082/02, and subsequent regulations, derivative financial instruments are classified on the date of their acquisition according to the Management's intention of using them for *hedging* purposes, or not.

Operations which use derivative financial instruments performed at the request of clients, at the Bank's expense, which do not meet the hedging criteria (principally derivatives used for managing the overall exposure to risk), are valued at market value, including realized and unrealized gains and losses, directly recognized in profit or loss.

Derivative financial instruments used to hedge risk exposure or to modify the characteristics of financial assets and liabilities which are highly correlated with respect to changes in the market value in relation to the market value of the item being hedged, both at the beginning and during the course of the contract's lifecycle and considered effective in the risk mitigation related to the exposure to be hedged, are classified as hedge of market risks, in which financial assets and liabilities, and the corresponding related financial instruments, are recorded at the market value including realized and non-realized gains and losses, directly recognized in the statement of profit or loss.

e) Loans

These are recorded based on the yields obtained, and recognized on a per day pro rata basis, according to the changes in the index and interest rates agreed upon.

Revenues and charges of any nature related to loan transactions which have been in arrears for a period of 60 days or more are recorded as unrecognized income and recognized in profit or loss when they are actually received.

According to Resolution n° 3.533/08 passed by the National Monetary Council and updated by subsequent rulings, the assignment of receivables whereby a substantial portion of the risks and rewards remains with the assignor, are to be kept in the loan portfolio as from January 1, 2012.

f) Allowance for doubtful accounts

Based on the analysis of outstanding operations conducted by the Management in order to define the appropriate amount to absorb probable losses from their realization, considering the economic scenario and both the specific and global risks of the portfolio, as well as the provisions set forth in the CMN Resolution n° 2.682/99, which requires periodic analysis of the portfolio and its classification into nine levels, where "AA" corresponds to minimum risk and "H" to loss. Transactions in arrears classified as level "H" remain under this classification for six months, after which they are written off against the recorded allowance and controlled in memorandum accounts.

g) Permanent assets

Permanent assets are stated at cost, combined with the following aspects:

- **Other investments:** they are stated at cost of acquisition, less impairment loss, when applicable;
- **Depreciation:** calculated on a straight-line basis, at the annual rates which consider the economic useful life of the assets, as follows: 10% for furniture, equipment, security system and facilities; and 20% for data processing systems; and

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of Reais)

- **Amortization of intangible assets:** calculated on a straight-line basis, for a period of up to 10 years.

h) Impairment

Pursuant to the CMN Resolution n° 3.566/08, which approved the adoption of Technical Pronouncement CPC 01 (impairment), the recoverable value of assets is tested, at least once a year, if there are indicators of loss. When the book value of the asset exceeds its recoverable value, the loss will be recognized directly in the statement of profit or loss.

No impairment loss had been identified as of June 30, 2017 and 2016.

i) Current and non-current liabilities

Current and long-term liabilities are stated at known or measurable amounts, including charges and monetary fluctuations (on a "pro rata" basis) and foreign exchange variations incurred.

j) Deferred income and social contribution taxes

The provision for income tax is recorded at the rate of 15% on taxable income, plus a 10% surtax. Social contribution tax is calculated at the rate of 20% on taxable income.

The Bank has deferred income and social contribution tax credit assets recorded resulting from tax loss, negative basis of social contribution and temporary differences. Based on the CMN Resolution n° 3.059/02 and subsequent amendments, the historical taxable income and short-term and medium-term forecasts prepared by the Bank enable a reasonable estimate of the realization term of these assets (note 19 "c").

k) PIS and COFINS

PIS and COFINS contributions are provisioned for at the rate of 0.65% and 4%, respectively, in accordance with the legislation in force.

l) Contingent assets and liabilities and legal obligations (tax and social security)

The Bank follows the guidelines set forth in the CMN Resolution n° 3.823/09, which approved the adoption of Technical Pronouncement CPC 25 - Procedures applicable to the recognition, measurement and disclosure of provisions, contingent liabilities and contingent assets.

Contingent assets are not recognized in the financial statements, except when there are evidences that the decision will be favorable, and shall not be subject to appeal.

Lawsuits are classified as probable, possible or remote according to the risk of loss, where a provision is made for those classified as probable loss, according to the estimated amount of the loss, based on the opinion of our legal advisers, the nature of the lawsuits and previous rulings delivered by courts for similar cases. Lawsuits classified as possible loss are only disclosed and those classified as remote loss do not require provision or disclosure.

Legal obligations are lawsuits related to tax obligations, whose matter of dispute is their legality or constitutionality. Regardless of the evaluation of the likelihood of favorable outcome, the amounts are fully recognized in the financial statements.

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of Reais)

m) Share-based payment

Qualified employees of the Bank participate in stock-based compensation plans, which are evaluated based on the price of the common share of The Bank of Nova Scotia (BNS). The Bank records its expense in the Statement of Profit or Loss for the semesters against a provision in Liabilities, as established by the CMN Resolution n° 3.989/11, which approved the adoption of the Technical Pronouncement CPC 10 - Share-Based Payment (Note 21).

n) Post-employment benefits

Post-employment or long-term benefit plans are formal or informal agreements in which the Bank commits itself to provide post-employment benefits to one or more employees, in accordance with the CMN Resolution n° 4.424/15, which approved Technical Pronouncement CPC 33 (R1) - Employee Benefits.

The defined contribution plans are post-employment benefits, in which the sponsoring Bank pays fixed contributions to a separate entity (fund), and there is no legal or constructive obligation to pay additional contributions if the fund does not have sufficient assets to honor all benefits in relation to its services in the current period and in previous periods. Contributions made to this effect are recognized as personnel expenses in the statement of profit or loss.

Defined benefit plans are post-employment benefits other than defined contribution plans. For this type of plan, the Bank's obligation is to provide the agreed upon benefits with its employees, assuming the potential actuarial risk that the benefits may cost more than expected (note 22).

4. Components of cash and cash equivalents

| | <u>2017</u> | <u>2016</u> |
|---------------------------|-----------------------|-----------------------|
| Cash and cash equivalents | 14,669 | 10,710 |
| Money market investments | 560,056 | 323,782 |
| Interbank deposits | 110,558 | - |
| Total | <u>685,283</u> | <u>334,492</u> |

5. Interbank investments

| | <u>2017</u> | | <u>2016</u> |
|---------------------------------|---------------------------|-----------------------|-----------------------|
| | <u>Up to 3 months</u> | <u>Total</u> | <u>Total</u> |
| Money market investments | | | |
| Own portfolio | 560,056 | 560,056 | 323,782 |
| LFT | 99,998 | 99,998 | 208,785 |
| NTN | 201,559 | 201,559 | 104,998 |
| LTN | 258,499 | 258,499 | 9,999 |
| Interbank deposits | 110,558 | 110,558 | 136,378 |
| Interbank deposits | 110,558 | 110,558 | 136,378 |
| Total | <u>670,614</u> | <u>670,614</u> | <u>460,160</u> |

6. Securities

The corrected cost (plus yield) and the market value of securities as of June 30, 2017 and 2016 were as follows:

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of Reais)

a) Trading securities

| | 2017 | | | | | | 2016 | | |
|---|----------------|---------------------|-------------------|-------------------|--------------------|------------------------|----------------|------------------------|----------------|
| | Up to 3 months | From 3 to 12 months | From 1 to 3 years | From 3 to 5 years | From 5 to 10 years | Market/ carrying value | Adjusted cost | Market/ carrying value | Adjusted cost |
| Own portfolio | | | | | | | | | |
| LTN | 149,942 | 165,925 | 6,976 | - | - | 322,843 | 322,228 | 56,164 | 56,111 |
| NTN | - | 24,007 | 20,536 | 4,320 | 1,111 | 49,974 | 49,104 | 43,477 | 42,727 |
| Subtotal | 149,942 | 189,932 | 27,512 | 4,320 | 1,111 | 372,817 | 371,332 | 99,641 | 98,838 |
| Subject to repurchase agreements | | | | | | | | | |
| LTN | - | - | - | - | - | - | - | 100,657 | 100,701 |
| Subtotal | - | - | - | - | - | - | - | 100,657 | 100,701 |
| Subject to guarantees provided | | | | | | | | | |
| LTN | - | 561,751 | 57,217 | - | - | 618,968 | 614,976 | 686,408 | 686,091 |
| Subtotal | - | 561,751 | 57,217 | - | - | 618,968 | 614,976 | 686,408 | 686,091 |
| Total | 149,942 | 751,683 | 84,729 | 4,320 | 1,111 | 991,785 | 986,308 | 886,706 | 885,630 |

The market values of government bonds are calculated according to asset prices disclosed by the Brazilian Association of Financial and Capital Market Entities (ANBIMA). Government bonds are held in custody at the Special System for Settlement and Custody (SELIC).

b) Available-for-sale securities

| | 2017 | | | | 2016 | |
|------------------------------|----------------|---------------------|------------------------|---------------|------------------------|---------------|
| | Up to 3 months | From 3 to 12 months | Market/ carrying value | Adjusted cost | Market/ carrying value | Adjusted cost |
| Own portfolio | | | | | | |
| LTN | 48,981 | - | 48,981 | 48,984 | 71,349 | 71,517 |
| Subtotal | 48,981 | - | 48,981 | 48,984 | 71,349 | 71,517 |
| Subject to guarantees | | | | | | |
| LTN | - | 46,970 | 46,970 | 46,734 | 18,155 | 18,193 |
| Subtotal | - | 46,970 | 46,970 | 46,734 | 18,155 | 18,193 |
| Total | 48,981 | 46,970 | 95,951 | 95,718 | 89,504 | 89,710 |

c) Held-to-maturity securities

| | 2017 | | | 2016 | |
|----------------------|----------------|---------------------|-------------------|--------------------------------|--------------------------------|
| | Up to 3 months | From 3 to 12 months | From 1 to 3 years | Adjusted cost / carrying value | Adjusted cost / carrying value |
| Own portfolio | | | | | |
| Debentures | 11,079 | 102,474 | 17,406 | 130,959 | 147,140 |
| Total | 11,079 | 102,474 | 17,406 | 130,959 | 147,140 |

The Bank records the estimated provision for losses associated with the debentures' credit risk, observing the same classification parameters in terms of risk levels for credit operations, as defined by the CMN Resolution nº 2.682/99. As of June 30, 2017, the adjusted cost/ carrying value of R\$132,563 is deducted from a provision for losses in the amount of R\$ 1,604 and the market value of securities held to maturity represented R\$132,657 (2016 - R\$ 148,430). The calculation of the market value for this category is based on an independent pricing model, which consists of calculating the future value of cash flows plus monetary correction, which is discounted to its present value by the fixed interest rate plus the credit spread. Private securities are held in custody at CETIP S.A. - Organized Assets and Derivatives Desk ("CETIP").

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of Reais)

7. Derivative financial instruments

The Bank participates in operations involving derivative financial instruments recorded in balance sheet and memorandum accounts, and whose purpose is to meet its own and its clients' needs. These operations are intended to manage market risk exposure to potential losses caused by fluctuations in the price of financial assets and variations in interest rates, currencies and indexes. The Bank's Management sets guidelines concerning the operation policy, control, establishment of strategies, as well as the limit of these positions.

The futures, swap and NDF operations are recorded in balance sheet and memorandum accounts at the contractual or reference value and are registered with the BM&FBovespa S.A. - Stock Exchange, Futures and Commodities or with CETIP.

The tables below show the reference values corrected to the market price, the respective adjustments receivable and payable and net exposures in the balance sheets to derivative financial instruments as of June 30, 2017 and 2016:

| | 2017 | | 2016 | |
|--------------------------|------------------|---------------------------------|------------------|---------------------------------|
| | Market value | | Market value | |
| | Notional value | Adjustment receivable (payable) | Notional value | Adjustment receivable (payable) |
| Futures contracts | | | | |
| Long position | 3,760,436 | 738 | 5,502,583 | (29,593) |
| DI | 301,540 | 206 | 1,251,629 | 45 |
| DDI | 3,458,896 | 532 | 4,250,954 | (29,638) |
| Short position | 1,442,681 | (582) | 1,437,155 | 5,863 |
| DI | 820,525 | (178) | 843,938 | 173 |
| DDI | 95,934 | (16) | 18,929 | 148 |
| Dollar | 526,222 | (388) | 574,288 | 5,542 |

As of June 30, 2017, in addition to the daily adjustments of futures contracts, the amount R\$ 9 (2016 - R\$ 15) is recorded under the caption "Other liabilities - due in connection with securities dealing" in current liabilities, which is related to commission and brokerage fees to settle with BM&FBovespa.

| | 2017 | | | 2016 | | |
|--------------------------------------|--------------------|----------------|----------------------|--------------------|-------------|----------------------|
| | Market value | | Corrected cost value | Market value | | Corrected cost value |
| | Notional value | Net value | Net value | Notional value | Net value | Net value |
| Swap contracts | | | | | | |
| Asset position | 3,485,923 | | | 3,905,941 | | |
| CDI | 3,485,923 | 3,485,923 | 3,475,465 | 3,905,941 | 3,905,941 | 3,732,897 |
| Liability position | (3,211,533) | | | (3,522,481) | | |
| US dollar | (3,211,533) | (3,211,533) | (3,183,874) | (3,522,481) | (3,522,481) | (3,400,190) |
| Forward contract - currencies | | | | | | |
| Asset position | 710,966 | | | 325,733 | | |
| US dollar | 580,995 | 451,666 | 454,184 | 85,561 | - | - |
| Prefixed rates | 129,971 | - | - | 240,172 | 168,337 | 172,652 |
| Liability position | (713,967) | | | (352,504) | | |
| US dollar | (129,329) | - | - | (280,668) | (195,107) | (197,750) |
| Prefixed rates | (584,638) | (454,667) | (456,321) | (71,836) | - | - |
| Total net value | | 271,389 | | 356,690 | | |

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of Reais)

The table below shows the reference values corrected to market price recorded in memorandum accounts and the respective maturity terms as of June 30, 2017 and 2016:

| | 2017 | | | | 2016 | |
|--------------------------------------|----------------|--------------------|---------------------|------------------|------------------|------------------|
| | Up to 1 month | From 1 to 6 months | From 6 to 12 months | Over 12 months | Total | Total |
| Futures contracts | 476,001 | 1,958,794 | 1,164,700 | 1,603,622 | 5,203,117 | 6,939,738 |
| DI | 131,949 | 469,501 | 321,488 | 199,127 | 1,122,065 | 2,095,567 |
| DDI | 3,307 | 1,303,816 | 843,212 | 1,404,495 | 3,554,830 | 4,269,883 |
| US dollar | 340,745 | 185,477 | - | - | 526,222 | 574,288 |
| Swap contracts | - | 191,741 | 16,110 | 66,539 | 274,390 | 383,460 |
| CDI | - | 1,465,476 | 528,844 | 1,491,603 | 3,485,923 | 3,905,941 |
| US dollar | - | (1,273,735) | (512,734) | (1,425,064) | (3,211,533) | (3,522,481) |
| Forward contract - currencies | 2,585 | (4,043) | (1,122) | (421) | (3,001) | (26,771) |
| US dollar | 179,194 | 89,811 | 105,892 | 76,769 | 451,666 | (195,107) |
| Prefixed rates | (176,609) | (93,854) | (107,014) | (77,190) | (454,667) | 168,336 |

The market and credit risk associated with these products, as well as the operational risks, are similar to those related to other types of financial instruments.

The results with derivative financial instruments for the semesters ended June 30, 2017 and 2016 are composed as follows:

| | 2017 | 2016 |
|--------------|----------------|------------------|
| Swap | 90,162 | 880,310 |
| Term | (7,731) | (29,025) |
| Futures | (87,241) | (1,023,535) |
| Options | - | (272) |
| Total | (4,810) | (172,522) |

An area independent from the operating and business areas is responsible for the evaluation and measurement of assets and liabilities existing in the Bank, which is in compliance with BACEN Circulars n° 3.068/01 and n° 3.082/02. These calculations are based on prices, rates or information collected from independent sources, such as BM&FBovespa, Stockbrokers, BACEN, ANBIMA, among others.

The table below shows the amounts of contracts designated as hedge financial instruments and financial instruments regarding the item subject to hedge as semesters ended June 30, 2017 and 2016:

| | 2017 | | | 2016 | |
|---|-------------------|----------------|----------------|-------------------|----------------|
| | Hedge instruments | Hedged item | | Hedge instruments | Hedged item |
| | Market value | Market value | Cost value | Market value | Market value |
| Hedging strategy for market risk | | | | | |
| <i>foreign borrowing hedge</i> | 125,127 | 123,405 | 123,252 | 444,832 | 450,444 |
| Total | 125,127 | 123,405 | 123,252 | 444,832 | 450,444 |

The effectiveness determined for the hedge portfolio is in compliance with the BACEN Circular 3082/02.

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of Reais)

The Bank uses market risk *hedge* to protect itself from exchange exposure risk for payments of principal and fixed rate exchange interest, related to the funding contracted abroad.

The transaction is structured as a combination of DDI futures contracts used as derivative *hedging* instruments and obligations arising from foreign loans raised in US dollar, falling due up to December 2018, designated as an item hedged against market risk.

For the foreign funding market value, item subject to hedge, what is taken into consideration are the characteristics of the operation in relation to interest rate and its corresponding term for determination of the future amount of cash flows, which will be deducted at present value at market rates, calculated based on the prices traded on BM&FBovespa.

8. Risk Management

Operational risk

The Bank has an across-the-board operational risk management structure which is responsible for identifying, assessing, monitoring, controlling, mitigating and reporting risks facing the organization. In this context, all employees have full access to all the tools, methodologies and reports produced by the Operational Risk department, thus enabling the dissemination of the risk-control culture inside the Bank.

The Bank's Operational Risk structure also includes the participation of the Executive Board, which is immediately involved in every significant event and actively participates in the monitoring of actions aimed to mitigate these risks. In addition to the daily monitoring, the *Risk Management* department also reports on a monthly basis the main operational risk events to the department heads and to the Executive Boards of the Bank and of The Bank of Nova Scotia (BNS).

Management of market and liquidity risks

Consistent with the requirements of the Head Office and always following the leading worldwide-adopted practices in risk management, the Bank has a comprehensive structure of risk control and management, integrated with and independent of the business areas and which seeks the optimization of the risk/return relation, focusing on efficient monitoring and strict control of the risk exposure factors. An integrated set of processes using platforms of local and global systems is responsible for the determination, analysis and report of market, and liquidity risks. The limits of risk are determined and approved by both local directors and those in the Head Office and are monitored on a preventive basis.

In this context, the market and liquidity risk management is performed on a daily basis by using own models and instruments such as *VaR - Value-at-Risk*, projections of cash flow, *stress test*, *backtesting*, analysis of sensitivity of interest, foreign exchange and volatility.

By complying with BNS's requirements, the Bank was able to meet the Central Bank's requirements regarding implementation of a market and liquidity risk structure (CMN Resolutions n° 3.464/07 and n° 4.090/12). In addition, the Bank calculates the capital requirements due to market risk exposure in accordance with the criteria established by the CMN Resolution n° 4.193/13.

Credit risk management

Consistent with the rules established by BACEN (CMN Resolutions n° 2.682/99, n° 2.844/01, n° 3.721/09, and others), and the organization's risk philosophy, the Bank has a credit risk management structure which includes the analysis and establishment of individual credit limit for the entire range of loan takers, as well as the analysis and monitoring of the Bank's aggregate credit risk, which takes into account all product lines offered by the Bank and all economic segments in which loan takers operate.

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of Reais)

The credit risk culture is broadly disseminated in the Bank, and the description of the products offered to loan takers includes the identification of the credit, market and operating risks, as well as the information systems that control them. Individual credit limits for loan takers are approved by using the Bank's own techniques/methodologies, and are reviewed at least once a year together with their corresponding ratings, which, under the CMN Resolution nº 2.682/99, are reviewed every six months for credit risks that exceed 5% of the Bank's reference shareholders' equity.

The executive board and the risk areas actively work on the management of credit risks, which includes the approval of individual credit limits and related institutional policies. In addition, they work in the monitoring of the aggregate credit portfolio and stress testing for evaluating the credit portfolio's resistance to adverse economic scenarios.

Capital management

The Bank is dedicated to maintaining a robust capital basis in order to support risks associated to its businesses. The Bank's Capital Management structure, which encompasses internal policies, measures and procedures related to Capital Management and Internal Process for Capital Adequacy Evaluation, is in line with BNS's global policy, and also complies with the Brazilian Central Bank's (BACEN) requirements provided for in the CMN Resolution nº 3.988/11.

The principles that govern the Bank's capital management structure aim at meeting the requirements in connection with: determinations of the regulatory agency; existence of appropriate governance and supervision; capital management policies, strategies and measurement that focus on the relationships between risk propensity, risk profile and capital capacity; a solid risk management process; a capital adequacy evaluation process that is in accordance with governance and capital policies; existence of adequate systems, processes and controls to assist in capital planning, forecast, measurement, monitoring and reporting.

The Executive Board is directly involved in the Capital Management Structure and responsible for the annual review and approval of internal policies. In addition, the Executive Board acts on monitoring level and adequacy of the Bank's capital through periodic reports produced and sent by the areas that are directly involved in the capital management process.

Descriptions of operational risk, market risk, liquidity risk, credit risk and capital management structures are published in a directory of public access, available at the address: <http://www.br.scotiabank.com>.

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of Reais)

9. Loans operations

a) Credit portfolio composition by type of operation, activity and term

| | 2017 | | | | | 2016 |
|---|----------------|----------------|---------------------|-------------------|------------------|------------------|
| | Overdue | Maturity | | | | |
| | Above 15 days | Up to 3 months | From 3 to 12 months | From 1 to 3 years | Total | |
| Private sector | | | | | | |
| Bank Credit Certificate (CCB) | - | 87,193 | 50,203 | 99,919 | 237,315 | 258,428 |
| Industry | - | 40,754 | 16,277 | - | 57,031 | 34,999 |
| Commerce | - | 6,580 | 17,181 | 29,252 | 53,013 | 83,364 |
| Other services | - | 39,859 | 16,745 | 70,667 | 127,271 | 140,065 |
| Export Credit Note (NCE) | - | 5,025 | 66,342 | 494,280 | 565,647 | 79,115 |
| Industry | - | 3,118 | 828 | 494,280 | 498,226 | - |
| Agricultural | - | - | 5,514 | - | 5,514 | 16,657 |
| Other services | - | 1,907 | 60,000 | - | 61,907 | 62,458 |
| Import financing | - | 6,058 | - | - | 6,058 | 2,234 |
| Commerce | - | 6,058 | - | - | 6,058 | 2,234 |
| Advances on export contracts - Exports - Notes deliverable (ACC) | - | 159,068 | 73,271 | - | 232,339 | 697,437 |
| Industry | - | 91,208 | 48,953 | - | 140,161 | 433,776 |
| Commerce | - | 67,860 | 24,318 | - | 92,178 | 263,661 |
| Income receivable from ACC | - | 1,921 | 412 | - | 2,333 | 6,580 |
| Industry | - | 809 | 87 | - | 896 | 4,667 |
| Commerce | - | 1,112 | 325 | - | 1,437 | 1,913 |
| Advances on exchange contracts Exports - Notes delivered (ACE) | - | 18,019 | 26,197 | - | 44,216 | - |
| Industry | - | 18,019 | 26,197 | - | 44,216 | - |
| Income receivable from ACE | - | 78 | 99 | - | 177 | - |
| Industry | - | 78 | 99 | - | 177 | - |
| Operations with extension-of-credit characteristics (i) | 100,445 | 15,529 | - | - | 115,974 | 46,319 |
| Commerce | - | 15,529 | - | - | 15,529 | 46,319 |
| Industry | 100,445 | - | - | - | 100,445 | - |
| Total | 100,445 | 292,891 | 216,524 | 594,199 | 1,204,059 | 1,090,113 |

(i) See note 11

b) Credit risk concentration

| | 2017 | 2016 |
|---------------------------------------|-------------|-----------|
| Major debtor | 498,226 (i) | 118,267 |
| Percentage of entire credit portfolio | 41.4% | 10.8% |
| 20 major debtors | 1,204,059 | 1,087,879 |
| Percentage of entire credit portfolio | 100.0% | 98.8% |

(i) See note 24 "a"

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of Reais)

c) Allowance for doubtful accounts

| Risk | Level of Provisioning | Total portfolio | | Allowance for doubtful accounts | | | |
|--------------|-----------------------|------------------|------------------|---------------------------------|--------------|------------------|----------------|
| | | 2017 | 2016 | 2017 | | Existing | 2016 |
| | | | | Minimum | Adjusted (i) | | |
| AA | 0.0% | 611,386 | 218,494 | - | - | - | - |
| A | 0.5% | 477,473 | 753,352 | (2,387) | (43) | (2,430) | (3,767) |
| C | 3.0% | - | 118,267 | - | - | - | (3,548) |
| D | 10.0% | 14,755 | - | (1,476) | - | (1,476) | - |
| H | 100.0% | 100,445 | - | (100,445) | - | (100,445) | - |
| Total | | 1,204,059 | 1,090,113 | (104,308) | (43) | (104,351) | (7,315) |

(i) Provisioning for Advance on Export Contracts (ACC) and Advance on Exchange Contracts (ACE) is calculated on the advance in reais granted on the date of their contracting. In June 2017, it started to be calculated based on the foreign currency balance translated into reais at the monthly foreign exchange rate provided by Bacen.

d) Changes in the allowance for doubtful accounts

| | 2017 | 2016 |
|---|------------------|----------------|
| Balances at beginning of semesters | (26,484) | (4,067) |
| Recording of provision | (77,867) | (3,329) |
| Reversal of provision | - | 81 |
| Balances at end of semesters | (104,351) | (7,315) |

e) Loans renegotiated, recovered or written off to loss

The amount of renegotiated credits for the six-month period ended June 30, 2017 amounted to R\$42,574 (2016 - R\$70,637).

During the six-month periods ended June 30, 2017 and 2016, there were no recoveries or loans written off to loss.

10. Foreign exchange portfolio - Current Assets

| | 2017 | 2016 |
|--|----------------|----------------|
| Purchased foreign exchange to be settled | 291,897 | 607,537 |
| Rights on foreign exchange sales | 4,332 | 2,346 |
| Income receivable from granted advances | 2,510 | 6,580 |
| Advances in local currency received | - | (2,346) |
| Total | 298,739 | 614,117 |
| | 2017 | 2016 |
| Sold foreign exchange to be settled | 4,409 | 2,264 |
| Obligations on foreign exchange purchase | 281,825 | 703,096 |
| Advances on foreign exchange contracts | (276,555) | (697,437) |
| Total | 9,679 | 7,923 |

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of Reais)

11. Other receivables - Sundry

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| Operations with extension-of-credit characteristics (i) | 115,974 | 46,319 |
| Credit taxes - income and social contribution taxes (note 19 "b") | 74,788 | 36,149 |
| Judicial deposits (ii) | 34,986 | 32,476 |
| Prepayment of IRPJ and CSLL | 2,373 | 3,665 |
| Advances and prepaid salaries | 824 | 743 |
| Taxes and contributions recoverable | 740 | 83 |
| Cash receivable from related companies | 131 | - |
| Other | 2 | 1 |
| Total | <u>229,818</u> | <u>119,436</u> |
| Current assets | 176,882 | 60,735 |
| Long-term assets | 52,936 | 58,701 |

(i) They include Advance on Exchange Contracts (ACE) operations in arrears including written-off export foreign exchange contract and receivables;

(ii) As of June 30, 2017, that asset includes a court deposit in the amount of R\$17,431 (2016 - R\$16,380) concerning a tax contingency proceeding (note 17 "c"). By court order, this amount was transferred from other legal proceeding on debt assumption operations, written off after the Bank joined the tax amnesty program established by Law 11941/09.

12. Deposits

| | <u>2017</u> | | | | <u>Total</u> | <u>2016</u> |
|--------------------|--------------------|-----------------------|----------------------------|--------------------------|-------------------------|-----------------------|
| | <u>No maturity</u> | <u>Up to 3 months</u> | <u>From 3 to 12 months</u> | <u>From 1 to 3 years</u> | | <u>Total</u> |
| Demand deposits | 206 | - | - | - | 206 | 5,788 |
| Interbank deposits | - | 70,089 | - | - | 70,089 | 86,428 |
| Time deposits | - | 232,888 | 257,034 | 1,174,997 | 1,664,919 | 661,466 |
| Total | <u>206</u> | <u>302,977</u> | <u>257,034</u> | <u>1,174,997</u> | <u>1,735,214</u> | <u>753,682</u> |

13. Funds from real estate, mortgage, credit and similar notes

As of June 30, 2017, the Bank has obligations for the issue of financial bills in the amount of R\$21,673 (2016 - R\$77,111) falling due up to February 2019.

14. Borrowings

Foreign currency trade finance borrowings in the amount of R\$1,036,183 (2016 - R\$1,393,676) are basically represented by investments aimed at export financing falling due up to April 2019. Transactions are corrected at the exchange variation plus interest ranging from 1.36% to 2.70% per annum.

15. Other liabilities - Tax and social security

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| Provision for deferred IRPJ and CSLL (note 20 "b") | 62,941 | 45,361 |
| Provision for IRPJ and CSLL on income payable | 2,274 | - |
| Taxes payable | 1,284 | 1,531 |
| Total | <u>66,499</u> | <u>46,892</u> |
| Current liabilities | 44,454 | 1,546 |
| Long-term liabilities | 22,045 | 45,346 |

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of Reais)

16. Other liabilities - Sundry

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| Provision for tax contingencies (note 17 "d") | 21,666 | 20,147 |
| Salaries, bonuses and social charges | 17,710 | 17,740 |
| Accounts payable - administrative expenses | 917 | 1,022 |
| Provision for labor contingencies (note 17 "d") | 915 | 883 |
| Provision for the Credit Guarantee Fund | 416 | 137 |
| Cash payable to related companies | 235 | - |
| Provision for financial guarantees provided (i) | 19 | - |
| Other | 19 | 57 |
| Total | <u><u>41,897</u></u> | <u><u>39,986</u></u> |
| Current liabilities | 13,185 | 12,587 |
| Long-term liabilities | 28,712 | 27,399 |

(i) As of June 30, 2017, it represents a provision related to credit risk in the amount of R\$9 (2016 - zero), on the R\$2,066 balance (2016 - zero) related to bank guarantees provided and the provision in the amount of R\$10 (2016 - zero), on the R\$2,097 balance (2016 - zero) related to loans released for imports. The evaluation for recording provisions is performed according to criteria described in note 3 "f".

17. Legal, tax and social security contingencies and liabilities

a) Contingent assets

The Bank does not have any contingent assets recognized in its balance sheet, nor does it have, at this moment, any legal proceedings that generate expectation of future gains.

b) Contingent liabilities

The Bank is a party to lawsuits and administrative proceedings arising from the normal course of its activities, involving matters of labor, tax and social security nature. The assessment for recording provisions is performed according to criteria described in note 3 "l".

The Bank maintains provisions for those contingent liabilities classified as probable loss, in amounts regarded as sufficient to cover possible losses. The provisioned amounts are recorded under the caption "Other liabilities - Sundry" (note 16), in long-term liabilities.

Ongoing labor lawsuits classified as possible loss amount to R\$28,916 (2016 - R\$ 32.487). Most labor lawsuits refer to actions filed by former employees and outsourced personnel to obtain indemnities, mostly regarding overtime payment and other labor rights.

There are processes in progress of a tax nature classified as possible losses in the amount of R\$12,192 (2016 - R\$11,478), arising from taxes that the Bank has been discussing in court, the main of which related to a request for compensation of withholding income tax levied on financial investments, in the amount of R\$ 5,015 (2016 - R\$ 4,802).

c) Legal obligations

The main proceeding, in the amount of R\$17,431 (2016 R\$16,380), refers to a legal defense with respect to the liability of the Contribution for Social Integration Program - PIS, under the Constitutional Amendment 17/97 and Supplementary Law 7/70 with regard to their legality or constitutionality.

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of Reais)

d) Changes in balances

| | Balance at | | | | Balance at | Judicial deposits (i) | |
|-------------------|-------------------|------------------|-----------------|-------------------|-------------------|------------------------------|---------------|
| | 12/31/2016 | Recording | Reversal | Correction | 06/30/2017 | 2017 | 2016 |
| Labor | 925 | - | (43) | 33 | 915 | 249 | 87 |
| Tax contingencies | - | - | - | - | - | 12,339 | 27,884 |
| Legal obligations | 20,970 | 101 | - | 595 | 21,666 | 22,398 | 4,505 |
| Total | 21,895 | 101 | (43) | 628 | 22,581 | 34,986 | 32,476 |

(i) See note 11

18. Shareholders' equity

The fully subscribed and paid-in capital is represented by 2,221,627,157 (2016 - 2,221,627,157) nominative common shares with no par value.

Management will decide, at the annual General Meeting, held every semester, the minimum amount for dividend payments related to the adjusted net income in accordance with article 202 of the Corporate Law.

Profit reserves

The legal reserve is recorded at the rate of 5% of the net income for the semester, up to the limit defined by the legislation in force. The statutory reserve balance refers to an undistributed portion of prior-year income, which, as determined by the General Meeting, was transferred to subsequent years.

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of Reais)

19. Deferred income and social contribution taxes

a) Calculation of the income and social contribution taxes levied on the operations

| | 2017 | | 2016 | |
|--|----------------|---------------------|----------------|---------------------|
| | Income tax | Social contribution | Income tax | Social contribution |
| Net income before taxes and after profit sharing | (39,326) | (39,326) | 35,871 | 35,871 |
| Temporary additions (exclusions) | 48,529 | 48,529 | (39,147) | (39,147) |
| Adjustment to market value – Securities and derivatives | (35,681) | (35,681) | (49,282) | (49,282) |
| Allowance for loan losses | 77,867 | 77,867 | 3,248 | 3,248 |
| Other | 6,343 | 6,343 | 6,887 | 6,887 |
| Permanent additions (exclusions) | (1,846) | (1,845) | 755 | 755 |
| Taxable basis | 7,357 | 7,358 | (2,521) | (2,521) |
| Compensation of tax loss and negative basis of social contribution | (2,207) | (2,207) | - | - |
| Taxable basis after offsetting | 5,150 | 5,151 | (2,521) | (2,521) |
| Rates | 25% | 20% | 25% | 20% |
| Total IRPJ and CSLL - current values before tax incentives | (1,275) | (1,030) | - | - |
| Tax incentives | 30 | - | - | - |
| Total IRPJ and CSLL - current values | (1,245) | (1,030) | - | - |
| Tax credit | 20,746 | 16,521 | 3,395 | 2,641 |
| Deferred tax liability. | (9,165) | (7,280) | (12,549) | (9,774) |
| Total | 10,336 | 8,211 | (9,154) | (7,133) |

b) Changes in deferred income and social contribution taxes according to the nature and origin

| | Balance at 12/31/2016 | Recording | Realized / Reversal | Balance at 06/30/2017 |
|--|-----------------------|---------------|---------------------|-----------------------|
| Deferred income taxes | | | | |
| Reflected in the income | 37,521 | 39,209 | (1,942) | 74,788 |
| Taxes losses and negative basis of social contribution | 12,457 | 1 | (993) | 11,465 |
| Allowance for risk of tax and labor | 8,758 | 275 | (4) | 9,029 |
| Nondeductible allowance | 4,087 | 2,544 | (21) | 6,610 |
| Allowance for doubtful loans | 11,891 | 35,938 | (875) | 46,954 |
| Allowance for credit risk | 328 | 451 | (49) | 730 |
| Total | 37,521 | 39,209 | (1,942) | 74,788 |

| | Balance at 12/31/2016 | Recording | Realized / Reversal | Balance at 06/30/2017 |
|---|-----------------------|-----------------|---------------------|-----------------------|
| Deferred tax liabilities | | | | |
| Reflected in the income | (46,391) | (17,137) | 692 | (62,836) |
| Mark to market of derivatives | (38,335) | (15,355) | - | (53,690) |
| Mark to market of trading securities | (1,759) | (1,390) | 692 | (2,457) |
| Monetary correction of judicial deposits | (6,297) | (392) | - | (6,689) |
| Reflected in equity | (91) | (86) | 72 | (105) |
| Mark to market of available-for-sale securities | (91) | (86) | 72 | (105) |
| Total | (46,482) | (17,223) | 764 | (62,941) |

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of Reais)

- c) Expected realization of deferred tax assets for tax losses, social contribution losses and for temporary differences

| Expected realization | Temporary differences | Tax loss and negative basis of social contribution | Total |
|-----------------------------|------------------------------|---|---------------|
| 1st. year | 6,252 | 5,391 | 11,643 |
| 2nd. year | 47,367 | 6,074 | 53,441 |
| 3rd. year | 675 | - | 675 |
| 4th. year | - | - | - |
| 5th. year | - | - | - |
| 6th. to 10th year | 9,029 | - | 9,029 |
| Total | 63,323 | 11,465 | 74,788 |
| Present value (*) | 51,034 | 10,053 | 61,087 |

(*) Present value adjustment, it was used the projected annual rate CDI.

At the balance sheet date, there is no deferred tax not activated.

20. Related parties

Transactions between related parties are disclosed in conformity with the National Monetary Council (CMN) Resolution n° 3.750/09 and the Committee for Accounting Pronouncements Technical Pronouncement CPC 05 – Disclosure of Related Parties, approved by the Committee for Accounting Pronouncements (CPC). These operations are carried out at usual market values, terms and average rates in effect at the respective dates.

a) Related party transactions

The transactions with related parties are basically characterized by:

| | Assets / (Liabilities) | | Revenues / (Expenses) | |
|---|-------------------------------|--------------------|------------------------------|----------------------------|
| | 2017 | 2016 | 01/01 to 06/30/2017 | 01/01 to 06/30/2016 |
| Cash and due from banks | 9,284 | 158 | 7,740 | 15,794 |
| BNS | 9,284 | 158 | 7,740 | 15,794 |
| Foreign exchange portfolio - asset position | 8,700 | - | 567 | 17 |
| BNS | 8,700 | - | 567 | 17 |
| Cash receivable (payable) to related companies / service revenues (expenses) | (104) | - | 21,907 | 4,364 |
| BNS | (235) | - | 18,958 | 3,808 |
| Scotiabank & Trust (Cayman) | - | - | 1,235 | 556 |
| Scotiabank Inverlat (Mexico) | 131 | - | 1,714 | - |
| Time deposits | (713) | (631) | (38) | (32) |
| Scotia Participações e Serviços | (713) | (631) | (38) | (32) |
| Borrowings | (1,030,125) | (1,391,442) | (18,637) | 249,060 |
| BNS | (1,030,125) | (1,391,442) | (18,637) | 249,060 |
| Foreign exchange portfolio - liability position | (8,740) | - | (210) | (5) |
| BNS | (8,740) | - | (210) | (5) |
| Co-obligations and risks on guarantees provided | - | 4,814 | - | - |
| Scotiabank Uruguai | - | 4,814 | - | - |

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of Reais)

b) Management compensation

For the purpose of disclosing management compensation, only Statutory Officers were considered. Expenses with management compensation for the semester ended June 30, 2017 total R\$ 3,844 (2016 - R\$3,024), of which R\$ 3,125 (2016 - R\$ 2,480) represents salaries and payroll charges, profit sharing, and bonuses and charges on bonuses, denominated short-term benefits, and R\$719 (2016 - R\$544) that represents share-based compensation and charges. There are no post-employment benefits, other long-term benefits or employment contract termination benefits.

21. Share-based payment

Share-based payment plans are evaluated based on The Bank of Nova Scotia (BNS) common share price traded in the Toronto Stock Exchange in Canada (TSX). BNS share price fluctuations change the unit value, situation which affects the Bank's share-based payment expenses. One portion that determines the fair price of shares also varies according to the Bank's performance. These plans are settled in cash and their expenses are recorded in the statement of income for the against a provision against a provision in liabilities. Eligible employees are paid based on this variable compensation according to one of the following plans: RSU, PSU or DPP.

a) Restricted Share Unit Plan (RSU - Restricted Share Unit Plan Restricted Share Unit Plan)

According to RSU plan, eligible employees will receive a bonus in restricted share units after three years. Final amount to be paid varies according to BNS share price. As of June 30, 2017, the amount of liabilities provided for this plan is R\$975 (2016 - R\$ 953) and the total number of shares is 7,123 units measured at weighted average fair value of R\$ 0.186 per share. Total expenses recorded in this plan for the semester are R\$149 (2016 - R\$300).

b) Performance Share Unit Plan (PSU)

According to PSU plan, eligible employees will receive a bonus at the end of three years. In addition to BNS' share price fluctuation, this portion of the bonus is subject to performance criteria (return on equity and total return to the shareholder) measured over a three-year period, on which a multiplying factor is applied. As of June 30, 2017, the amount of liabilities provided for this plan is R\$3,661 (2016 - R\$ 4,074) and the total number of shares is 28,673 units measured at weighted average fair value of R\$ 0.186 per share. Total expenses recorded in this plan for the semester are R\$263 (2016 - R\$547).

c) DPP - Deferred Performance Plan

Within the scope of the DPP plan, the bonus portion received by employees eligible for this plan is allocated as units. The values of these units are defined based on the BNS shares' market price variation. They will be paid to employees in each of the three following years. As of June 30, 2017, the amount of liabilities provided for this plan is R\$2,572 (2016 - R\$ 2,164) and the total number of shares is 12,309 units measured at weighted average fair value of R\$ 0.169 per share, determined based on the original share prices when granted. Total expenses recorded in this plan for the semester is R\$487 (2016 - R\$532).

22. Post-employment benefits

For the defined contribution post-employment plan, the Bank offers to its employees the benefit of supplementary private pension through monthly payments. After the employee's termination, these payments are ceased. Total personnel expenses on this plan for the semester ended June 30, 2017 are R\$429 (2016 - R\$425).

Other defined post-employment contribution plans are considered short-term benefits, such as health care and profit sharing.

The Bank doesn't have post-employment benefit plans to its employees.

SCOTIABANK BRASIL S.A. BANCO MÚLTIPLO
NOTES TO THE FINANCIAL STATEMENTS
SEMESTERS ENDED JUNE 30, 2017 AND 2016
(In thousands of Reais)

23. Basel index and Operational Limits

The Bank calculates the Basel index (New Capital Agreement) and the operational limits based on the Brazilian Central Bank's guidelines, as follows:

| | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|
| Referential Equity (PR) | 491,690 | 504,474 |
| Minimum PR required for the amount of Risk Weighted Asset (RWA) | 196,055 | 308,014 |
| Value corresponding to R_{BAN} | 444 | 640 |
| Margin value | 295,191 | 195,820 |
| Basel Index | 23.20% | 16.17% |
| Fixed assets to equity ratio – CMN Resolution. n° 2.283/96 | 0.69% | 0.70% |
| Leverage ratio (RA) | 15.92% | 15.34% |

Financial institutions are obliged to keep investment in permanent assets in accordance with the Reference Shareholders' Equity level. Funds invested in permanent assets are limited to 50% of the adjusted Reference Shareholders' Equity level pursuant to current regulation. As of June 30, 2017 and 2016, the Bank is within all limits.

24. Other information

a) Restricted receivables - BACEN Circular n° 3.233/04

As of June 30, 2017, the Bank had restricted receivables within the scope of the CMN Resolution n° 2.921/02, stated in the following table:

| | <u>Assets/(Liabilities)</u> | | <u>Revenues/ (Expenses)</u> | |
|-------------------------------|-----------------------------|-------------|-------------------------------------|---|
| | <u>2017</u> | <u>2016</u> | <u>01/01/2017 to 06/30/2017</u> | <u>01/01/2017 to 06/30/2016</u> |
| Restricted receivables | | | | |
| NCE (note "9") | 498.226 | - | 30.556 | - |
| Borrowings | | | | |
| Foreign borrowings (note 14) | (500,101) | - | (32,431) | - |
| | | | <u>(1,875)</u> | <u>-</u> |

The return on restricted receivables is sufficient to cover the costs of deposits, money market and interbank funds. The net income presented by those operations reflect the accounting criterion used for foreign exchange correction of asset and liability operations contracted including a foreign exchange adjustment clause, as determined by BACEN.

There are no defaulted restricted receivables or restricted receivables under judicial questioning.

Those operations should not be considered in the determination of exposure limits by client, established in the CMN Resolution n° 2.844/01.

* * *